



# INTERNAL AUDIT REPORT

## PURCHASING CARDS

June 3, 2002

Roanoke City Council Audit Committee  
Roanoke, Virginia

We have completed our audit of Purchasing Card Controls. Our audit was performed in accordance with generally accepted government auditing standards.

### **BACKGROUND**

In 2000, the Finance department, the Department of Management and Budget, the Purchasing department, and Municipal Auditing began evaluating the feasibility of a purchasing card program at the City. These departments researched existing procurement card programs and analyzed the City's historical expenditure data. The data indicated that a great number of the City's purchases were under one thousand dollars and that a purchasing card program could allow significant savings in costs associated with processing these small dollar checks and purchase orders. Also, by providing a purchasing card for employee travel, the City could stop advancing cash to employees to cover travel expenses. This provided another opportunity to reduce the number of checks printed and the related costs. Based on this research and analysis, the City developed a request for proposal for purchasing card services.

In February 2001, a committee of employees selected Wachovia Bank Card Services to provide the City purchasing card services through VISA. The City signed a contract at the end of February 2001 that stipulated a one-year term with options to renew for two additional one-year periods.

The City began using purchasing cards in select departments beginning in April 2001. The majority of City departments were using purchasing cards by the end of September 2001. Over the period from July 1, 2001 through November 30, 2001, the City executed 7,269 card transactions in amounts varying from \$.90 to \$16,753 with expenditures accumulating to \$1,169,184 in total. Since full implementation in September, the City has averaged \$338,000 per month in expenditures through the end of February 2002. The number of purchase orders was down 68% and the number of checks written dropped 14% for the period January through March 2002 versus the same period in 2001.

Finance, with input from other departments, developed a policies and procedures manual for purchasing cards. This manual provides the basic structure for departments to follow in managing their cards and establishes acceptable uses for the cards. It covers procedures for monthly reconciliation of receipts and credit card statements. It also addresses steps to take when cards are lost, to contest charges not made by the

cardholder, etcetera. The manual addresses appropriate uses for purchasing cards and includes an employee agreement and an acknowledgement letter that must be signed by each cardholder when he or she is issued a card. (A copy of the agreement and letter is attached to this report). The Finance department reviewed the policies and procedures with those administering the purchasing card program in the individual departments as the program was implemented.

The purchasing cards provided by Wachovia have the City of Roanoke's logo and name on the front, and include "official use only" and "tax exempt" statements on them. The City's cards are part of the VISA network, which offers a number of controls at the point of service. Each City of Roanoke purchasing card is set-up by default to have a \$1,000 per transaction limit and a \$15,000 cumulative monthly limit. A limited number of City cards have higher limits that were specifically requested due to the nature of the purchases for which they are used. The City's purchasing cards are also set-up to limit acceptance to certain merchant classifications through the VISA network. For example, the City of Roanoke's purchasing cards cannot be used at ATMs or bars and nightclubs.

Authorized purchases made with the purchasing cards are captured through the VISA network. At the end of each month, Finance downloads a file showing all City of Roanoke purchasing card transactions for the month. Finance uses the download to prepare spreadsheets showing each department's purchases, which it e-mails to the respective departments. The departments then reconcile the expenditures on the spreadsheet to their original receipts. The departments also enter the object codes they want each purchase charged to on the spreadsheet. The spreadsheet is e-mailed back to Finance where it is interfaced with the City's Advantage accounting system. In addition to the spreadsheet, each department receives a paper statement directly from Wachovia. The department manager or a designee attaches the receipts to the statement, signs the statement to certify accuracy and authorize payment, and forwards it to Finance for review and retention.

## **PURPOSE**

The purpose of this audit was to evaluate the following in relation to purchasing cards:

- The design and operation of the system of internal controls
- Individual City departmental compliance with policies and procedures
- The appropriateness of selected transactions

## **SCOPE**

Our audit evaluated controls in place as of December 1, 2001. Our test work primarily focused on transactions occurring from July 1, 2001 to December 31, 2001.

## **METHODOLOGY**

We gained an understanding of internal controls relating to the purchasing card program by reviewing available documentation and interviewing both Wachovia and Finance

department personnel. We documented our understanding by developing data flow diagrams, process outlines and process flow charts. Based on this understanding, we identified controls and the risks involved with the use of purchasing cards. We evaluated the efficiency and effectiveness of the controls over the risks. As a result of our evaluation, we developed a test program that includes a combination of substantive and control test work. Sampling was generally performed on a non-statistical basis due to data configuration and accessibility.

## **RESULTS**

Our testing indicates that users are generally receiving the appropriate tax-exempt benefits when using their purchasing cards. Also, results of our test work indicate that that department contacts have been properly trained in administering the program in their departments. User agreements were properly completed and on file for all users tested. The following concerns were discussed with management based on the results of our audit:

### **Finding 01 – VISA Controls**

Point of service controls were not functioning as described in the contract with Wachovia:

- Cards with a \$1,000 transaction limit were used to make purchases exceeding \$1,000.
- Three cards with a monthly transaction limit of \$15,000 had total charges in a month that exceeded the limit.
- Three purchases were made at Partyetc.com, a business with a restricted merchant category code. (The purchases were researched and evaluated to be legitimate business expenditures.)

Wachovia established a 10% tolerance rate when setting up the City's purchasing cards. This effectively made the limits \$1,100 per transaction and \$16,500 monthly. In regards to the merchant codes, Wachovia simply failed to enter the proper restrictions when setting up the cards.

### **Recommendation 01 – VISA Controls**

This finding has already been addressed through communications between the Finance department and Wachovia. Finance should continue to monitor expenditures for future problems.

### **Management's Response 01 – VISA Controls**

We concur with this finding and the resolution thereof. In the future, we will perform occasional reviews to ensure that the bank card processor's controls are properly functioning. We have also specifically addressed this issue in our contract extension

discussions with MBNA, the entity which acquired the Wachovia commercial card portfolio when Wachovia decided to exit the commercial card business.

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### **Finding 02 – Split Purchases**

Cardholders are bypassing per transaction limits by splitting transactions over \$1,000 into smaller transactions. Seventy-nine percent (79%) of all transactions made between \$999 and \$1,000 were actually for purchases over \$1,000. During the course of test work, we also noted several other instances of purchases that exceeded \$1,000 that were processed as two or more separate transactions within minutes of each other. Procedures clearly state that cardholders are responsible for adhering to the purchase limits.

### **Recommendation 02 - Split Purchases**

We recommend that the Finance department issue a notice to all cardholders informing them that purchases exceeding \$1,000 should not be split. Municipal Auditing will be issuing a memo to departments for which split purchases were noted.

### **Management's Response 02 – Split Purchases**

Our policies and procedures manual clearly states that transactions may not be split into separate, smaller transactions to accommodate a purchase of over \$1,000. This has also been clearly addressed in department training sessions. Since the inception of our program, we have also sent departments additional periodic reminders of essential purchasing card guidelines. We have recently highlighted the policy that transactions may not be split as a means of complying with the \$1,000 per transaction limit. We will continue to highlight this from time to time in our periodic communications to departments.

The Departments of Finance and Municipal Auditing have also agreed to periodically examine the purchasing card transaction detail to review for split transactions. We will bring to the attention of department management any apparent incidents of split transactions we discover. Department managers have also been encouraged to perform the same type of examination as they review monthly card billing statements. Department management sign off on the monthly purchasing card statement is intended to denote management review and approval of transactions, transaction documentation, and adherence to program guidelines.

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### **Finding 03 – Itemized Receipts**

Transactions were not supported by itemized receipts in some cases. A signature receipt with only the vendor name, date of purchase and amount was provided by the cardholder in these cases. Without properly itemized receipts, department managers cannot evaluate the appropriateness of the items purchased.

We researched the purchases identified that were not supported by itemized receipts by talking with the employees, department heads, and departmental purchasing card contacts. In all cases, we were able to satisfy ourselves that the purchases were for legitimate business purposes.

### **Recommendation 03 – Itemized Receipts**

We recommend that the Finance department issue a notice to cardholders, department managers, and department contacts specifying that itemized receipts are required and should be evaluated by managers or contact persons for appropriateness. Municipal Auditing will be issuing a memo to departments for which non-itemized receipts were noted.

### **Management's Response 03 – Itemized Receipts**

Our policies and procedures manual clearly states that itemized receipts be obtained on all purchasing card transactions. We will again comment that since the inception of our program, we have sent departments periodic reminders of essential purchasing card guidelines, including the requirement that itemized receipts be obtained for all transactions (except employee meals in which case a receipt need not detail the exact food items purchased). We have highlighted on several occasions in periodic e-mail communications the requirement that itemized receipts be obtained and attached to monthly statements. We will continue to highlight this from time to time, and we will continue to spot check monthly statements to determine that appropriate documentation has been submitted. Again, department management sign off on the monthly purchasing card statement is intended to denote management review and approval of transactions, transaction documentation, and adherence to program guidelines.

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### **Finding 04 – Classification of Expenditures**

Expenditures for business meals were accounted for under a "Food" account (2060) described in the City's budget manual as "...used to pay for food for residential-type facilities." Expenditures for meals for business associates/contacts were charged to the "Training and Development" account (2044). Expenditures for meals for job applicants and for gift certificates to reward employees for meeting attendance and safety goals were charged to "Training and Development" (2044). When expenditures that are not related to training and development are included in the 2044 account, it renders any analysis of that investment in employees invalid. We did not evaluate the materiality of these misclassifications in relationship to the overall balances in these accounts.

### **Recommendation 04 – Classification of Expenditures**

We recommend that the Department of Management and Budget establish an account for "Business Meals and Travel" in order to better distinguish between the expenditures for training and development versus expenditures for business purposes. There are established accounts such as "Recruiting Program" (2019) and "Service Awards" (2031) that could be used to report expenditures for job applicants and employee incentives.

**Management's Response 04 – Classification of Expenditures**

*Finance response:* The Department of Finance will follow up in the near future by sending all departments a full listing of available account codes as a reminder of the options in accounting for departmental transactions.

*Department of Management and Budget Response:* The current administrative procedures regulating the reporting of employee training and business travel expenditures were developed after surveying a number of other local governments in Virginia. However, the Department of Management and Budget will collaborate with the Department of Finance in surveying again our standard peer group of First Cities Coalition localities to determine processes and procedures used to account for these types of expenditures. A report of these findings along with a more complete management response to Recommendation 04 will be provided to the Municipal Auditor by June 30, 2002.

**CONCLUSION**

Based on the results of our audit work, we conclude that the design of the system of internal controls is satisfactory. However, we conclude that some controls are not operating as intended. We did not note any individual purchases not for legitimate business purposes.

We want to thank the Purchasing department and the Department of Management and Budget for their cooperation and assistance during this audit. We want to thank the Finance department for providing the data, making themselves available, and for their input and cooperation.

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